

85<sup>th</sup> Legislative Session – 2010

Committee: Joint Appropriations

Wednesday, February 10, 2010

P - Present  
E - Excused  
A - Absent

Roll Call

P Ahlers  
P Burg  
P Bartling  
P Dennert  
P Hundstad  
P Wismer  
P Novstrup (Al)  
P Brown  
P Carson  
P Deadrick  
P Peters  
P Wink  
P Haverly  
P Putnam  
P Hunhoff (Jean), Chair  
P Tidemann, Vice-Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Senator Jean Hunhoff.

**Department of Agriculture**

Secretary Even and Finance Officer Chris Peterson met with the Committee to present the department's FY budget request. Document No. 1 was distributed.

For FY11, the Governor recommends a decrease of \$3,748,452 from all funds from FY10. The FY11 recommended budget consists of \$6,245,020 from general funds, \$10,417,661 in federal fund expenditure authority, and \$23,938,804 in other fund expenditure authority, for a total budget of \$40,601,485 and 226.5 FTEs.

**Major Expansions and Reductions****Administration:**

- Contractual Services – an increase of \$32,121 from general funds to compensate the consolidated Game Fish and Parks/Agriculture finance office for resources that are being used to support Department of Agriculture activities. This increase is being offset by a decrease in the Resource Conservation and Forestry budget.

**Agricultural Services:**

- A decrease of \$65,869 in other fund expenditure authority and 1.8 FTEs due to unutilized FTEs.

**Fire Suppression:**

- Capital Outlay – a decrease of \$4,000,000 in American Recovery and Reinvestment Act federal fund expenditure authority that is not needed in FY11.

**Resource Conservation and Forestry:**

- Personal Services – a decrease of \$2,553 from general funds, \$2,552 in other fund expenditure authority, and 0.2 FTE due to unutilized FTE; and a decrease of \$32,121 from general funds, which offsets the increase for additional finance officer staffing in the Administration division.

**Animal Industry Board:**

- Personal Services – a funding switch of \$15,000 from general funds to federal fund expenditure authority, as more personal services are eligible to be charged to federal funds.
- Operating Expenses – a decrease of \$25,000 in federal fund expenditure authority since it is no longer necessary to test for pseudo rabies in swine.

**State Health Insurance:**

- An increase of \$60,417 (\$22,818 in general funds, \$15,698 in federal funds and \$21,901 in other funds) for state health insurance.

Senator Ahlers asked about the differences in FTE from actual FY09 to budgeted FY11. Mr. Peterson said the FY09 personal services budget for the State Fair was removed from the recommended budget request and passed through a special appropriation, including 14.2 FTE and then put back into the State Fair base budget in FY10. In addition, FY09 was the first year the Brand Board inspectors were included in the budget. The Brand Board underutilized 17 FTE and 5 were removed. The remaining FTE (9.1) are in the Fire Suppression Division.

**Department's FY10 Highest Priorities**

- County zoning and farm-to-market road issues
- State Fair
- Emerald Ash Bore
- Japanese Beetles
- Prairie Dogs
- Pine Beetles

Secretary Even spoke to the 2009 State Fair revenues. A total of \$6.8 million was collected in sales and taxes during the 5-day fair as well as 82 events during the off season. This total included \$273,471.28 from the 4% state sales tax, \$99,544.37 from the 2% Tourism tax and \$174,636.92 from the 2-3% City tax.

Representative Peters asked for information on the proposed water park. Secretary Even said the City of Huron had met with the State Fair Board regarding pool needs in the City of Huron looking for a partner in their water park adventure. One of the possible locations for the park is on state fair property. This partnership could be handled in two ways, a deed transfer or a long-term lease arrangement. In conjunction with the proposed park, it is the department's intent to develop a modern campground. The department's legal counsel has looked into the land issue, and if the park is located on state ground, outside the core part of the fair grounds, a land transfer would suffice. The original core property has a reversion clause from the railroad which states a certain number of events need to be held annually or the property reverts back to the railroad. If the park is located in this area, it would be handled with a lease.

Secretary Even said the Ag Policy Division had secured 50 grants totaling \$15 million. These grants are used for SDDA programs, and are re-granted to other entities.

Agriculture creates more than \$21.3 billion in economic activity each year. Agriculture employs over 173,000 South Dakotans and generates over \$645 million in annual tax revenues.

Secretary Even updated the Committee on the South Dakota Certified Beef Program. To date more than 230 producers and 78,000 cattle have been enrolled in the program. In addition, 128 producers and 14,521 cattle are currently enrolled in the Beef Export Verification program.

Representative Deadrick asked for information on the national animal ID program. Secretary Even said the USDA had recently announced they were abandoning the national animal identification system. State Veterinarian Dr. Oedekoven said he was not sure how this change will affect the budget. The plan is to develop proposed rules over the summer for implementation in late fall or early winter. Dr. Oedekoven said it appears the responsibility for identification and traceability will be placed on the states. South Dakota's identification system works well and is already doing what needs to be done. The Animal Industry has budget authority in place and should be able to adapt the changes with the current budget. Dr. Oedekoven said the traceability is aimed at live animals and the health of the livestock. At this point the traceability ends at the slaughter house door.

Dr. Oedekoven, State Veterinarian presented the Animal Industry Board budget. Costs for controlling the tuberculosis outbreak are being handled cooperatively with USDA and Dr. Oedekoven is not sure the department will need additional funds. Dr. Oedekoven explained they first find the infected animal, then test the remaining herd and purchase any previously sold livestock. Costs incurred are in relation to purchasing the previously sold animals and staff time spent testing.

Representative Peters asked for an explanation of “Other Common Cost General” as shown on Document No. 1 – State Fair Revenue and Expense Summary. Mr. Peterson explained the \$785,000 was ongoing operating costs (salaries, benefits, workers compensation claim). Mr. Peterson said the worker’s comp payment continues to drop and is currently less than \$100,000.

Representative Peters requested a 4-year history for revenue and expenses for the State Fair and a 4-year history of the workers compensation expense.

In response to Senator Hunhoff’s question, Secretary Even said gate admission fees at the State Fair have remained static; however, in FY09 camping fees went from \$180-\$200 and there was also an increase in beer prices.

Secretary Even said every year the department looks at its revenue stream and uses that information to plan M&R projects on the state fair grounds. In addition, the department works with the Bureau of Administration on the statewide M&R list. Risk Management checks the state fair facilities for safety issues.

Senator Hunhoff asked the department to provide a comprehensive report on the State Fair, both revenue and expenses and for both calendar year and fiscal year.

### **Department of Tourism and State Development**

**Mr. Richard Benda**, Secretary for the Department of Tourism and State Development (DTSD), and **Ms. Marty Davis**, Finance Officer, distributed a PowerPoint presentation that outlines the agencies FY11 budget request. (**Document #2**)

For FY11, the Governor recommends a total appropriation of \$72,809,561 and 253.1 FTEs for the Department of Tourism and State Development. This dollar amount consists of \$8,733,424 from the general fund, \$14,714,453 in federal funds, and \$49,361,684 in other funds. The Governor’s recommendation is a decrease from FY10 in general funds of \$23,082 (0.3%), in federal funds of \$411,540 (2.7%), and in other funds of \$13,258,015 (21.2%). The Governor’s recommendation for FTEs is a decrease of 2.0 FTEs from FY10.

Some of the budgetary changes for FY11 include:

#### Office of Tourism

- A decrease of \$48,216 in other fund expenditure authority for personnel services and 1.0 FTE. This decrease is to more accurately align the FY 2011 budget with historic utilization.
- An increase in other fund expenditure authority of \$394,367 for contractual services. The contractual service expenditures will be used to support strategic marketing activities through careful use and analysis of market research, targeted and creative advertising, and aggressive public relations efforts.
- An increase in other fund expenditure authority of \$100,000 for grants and subsidy expenditures. The grants and subsidy expenditures will be used to provide sufficient authority

to cover additional funding to the four tourism associations in the state for their marketing and advertising efforts. The contribution to each association will increase from \$55,000 to \$80,000.

#### Office of the Arts

- The Office of the Arts received money from the American Recovery and Reinvestment Act for National Endowment for the Arts grants in FY 2010. This money will not be received in FY 2011; therefore, federal expenditure authority for grants and subsidies is being decreased by \$306,000.

#### Cultural Heritage Center

- A decrease of \$27,937 in general fund expenditure authority for personnel services and 1.0 FTE. This decrease is due to unutilized FTE hours.
- A decrease in general fund expenditure authority of \$1,828 for operating expenditures. This decrease is for the state owned space billing rates from BOA projected in FY 2011.

Senator Ahlers asked about funds regarding the excess general funds for personal services. Ms. Davis responded that most of the excess general funds for personal services are used for economic development advertising. The department has never had an advertising budget, but has used other available money to fund advertising.

Secretary Benda said that there was not revenue in July or August this year for the gross receipts tax (promotion tax) regarding the additional 0.5%. The visitor industry began collecting the additional 0.5% tax on July 1, 2009. The collections received in the months of July and August was tax collected by the visitor industry during the months of May and June at the 1%. Secretary Benda predicts that there will be a shortfall in the revenue generated from the additional 0.5% of gross receipts tax to fund the challenge grants, arts, and archeological research.

The priorities of the DTSD have remained constant since last session. The priorities are the Governor's 2010 Initiative, which include:

- Double Visitor spending from \$600 million to \$1.2 billion;
- Increase Gross State Product (GSP) by \$10 billion;
- Become a recognized leader in research and technology development;
- Brand and develop South Dakota's quality of life as best in America by 2010; and
- Uphold the commitment to the 2010 Initiative as a work in progress

#### **Governor's Office of Economic Development**

The Governor recommends a total appropriation of \$25,336,302 and 40.8 FTEs for the Governor's Office of Economic Development for FY11. This dollar amount consists of \$2,441,871 from the general fund, \$11,268,805 in federal funds, and \$11,625,626 in other funds. The Governor's recommendation is an increase from FY10 in general funds of \$3,398 (0.1%), in federal funds of \$1,826, and in other funds of \$3,897.

**Ms. Kim Olson**, Director of the Governor's Office of Economic Development (GOED), said that the main goal of the division is to increase the state's gross domestic product (GDP). The division worked with 648 companies creating new leads, retention and expansion (R&E), and hosting. In 2009, the capital investment was \$217 million with a projected 529 FTEs created.

The economic growth from the GDP reached the Governor's 2010 Initiative goal in 2007 with a total growth of \$35,211 million. The economic growth was \$36,959 million in 2008.

Representative Tidemann asked about a comparison of South Dakota's GDP economic growth to the surrounding states.

Representative Burg asked if the department follows up with the companies that do not move to South Dakota. Ms. Olson responded that any company that no longer works with the department is moved into a passive prospective classification and an annual survey is performed on those companies.

Ms. Olson explained that South Dakota tried to target emerging industries, such as biotechnology and value added agriculture. These industries are targeted based on four characteristics: university training, emerging industries, quality of the job, and needs of the community.

Agricultural Process and Export – This is a federal program managed by the Governor's Office of Economic Development. Four loans, totaling \$646,608, have been awarded.

REDI Fund – Ms. Olson stated that the REDI Fund is based on the goal of job creation. In 2009, 13 loans were approved with a total dollar amount of \$9,768,577. It is projected that the REDI Fund helped create 351 FTEs.

Ms. Olson explained that the REDI Fund is designed with a five year balloon payment schedule. At the end of the fifth year, companies take out a conventional loan to repay the remained for the loan from the REDI Fund. However, due to the economy the department is extending the length of the repayment schedule to 12 companies that were not able to find other financing.

Senator Haverly asked about the application for the REDI Fund. Ms. Olson responded that companies are required to have a three-year projection for all FTEs which includes an itemized list of all job descriptions with salary. The companies report to the department on a monthly basis during the first year of the loan and an annual review is preformed thereafter.

Representative Dennert asked if the extension to the 12 companies will leave a shortfall in the REDI Fund. Ms. Olson stated a concern about the extension since 1/5 to 1/6 of the fund needs to be available for other companies.

In response to Senator Haverly's question, Ms. Olson stated that the cash balance for the REDI Fund is broken into four areas:

- Reserve - \$3.7 million;
- Approved but not loaned until after construction is completed;
- Committed loan to the proposed companies; and
- Remaining balance of unobligated funds.

Secretary Benda commented that the committed loans and approved loans do not appear on the condition statement. If every proposal was approved and closed, as of January 1, 2010, the REDI Fund would have a balance of \$500,000.

Representative Peters requested a list of definitions for the different cash balance classifications.

Distributed to the committee was a handout listing the current status of the REDI and Future Funds. (**Document #3**)

Value-Added Ag Subfund – For 2009, one loan was awarded in the amount of \$22,500.

SBA 504 – This program is a federal loan program administered by the Governor's Office of Economic Development. To qualify for a SBA 504 loan, companies must have fewer than 500 employees with a net-worth of less than \$6.5 million. In 2009, 15 loans were awarded totaling \$6,361,155.

MicroLOAN South Dakota – This federal loan program is designed for companies with a net-worth of less than \$500,000. In 2009, six loans were awarded totaling \$229,460.

Community Development Block Grant – Ms. Olson stated that 2009 had higher amount of grants due to federal stimulus funds. There were 31 grants awarded totaling \$11,627,562.

In response to Representative Putnam's question, Ms. Olson stated that the funds are for infrastructure grants such as waste water development.

Workforce Development Program – Ms. Olson stated the employees that complete training receive an wage increase. The funds are 50/50 match with state dollars coming from the Future Fund. In 2009, 33 grants were awarded totaling \$1,165,543.

Ms. Olson informed the committee about the Governor's Office of Economic Development involvement in trade shows, companies promoted, radio co-op marketing, and community development efforts.

Senator Hunhoff requested a list the resources available for small businesses.

### **Office of Tourism**

The Governor recommends a total appropriation of \$11,834,564 in other funds and 22.8 FTEs for the Division of Tourism for FY11. The recommendation is an increase from FY10 in other funds of \$458,636 (4.0%). The Governor recommends a decrease of 1.0 FTE from FY10.

**Ms. Melissa Bump**, Director of the Office of Tourism, provided an update of the highlights for the 2009 economic impact. Some include:

- Total visitor spending – down 0.4%, \$962,702,704;
- Impact on South Dakota's economy – down 0.4%, \$2.41 billion;
- State sales tax – up 8.6%, \$25,488,000;
- State gasoline tax – up 14.4%, \$25,520,000; and
- Employment created – up 0.7%, 33,956 jobs.

In response to Representative Putnam's question, Ms. Bump stated that the data is collected from revenue over the last ten years. The reports are performed by Dr. Madden.

Senator Novstrup asked about the decrease of 2.1% for sales tax revenue in 2008. After immense committee discussion, **Mr. Kirk Hulstein**, Research Manager, stated that the information in the charts for FY10 used the Dr. Madden research. However, the DTSD will be utilizing another methodology from IHS Global for the FY11 data to create a nationally comparative study.

Senator Novstrup requested a historical listing for the visitor use of hotels and attraction industry in the state.

Ms. Bump stated that Giant Step and Great Getaways were part of the DTSD peak season for the state. The Giant Step was six page ads that were run in publications such as Ladies Home Journal, Midwest Living, and Travel 50 and Beyond. Near 15.6 million copies were circulated that reached a broad audience. The Great Getaways is a 16 page, full color magazine-style marketing tool that was included in newspapers in Colorado, Iowa, Minnesota, Nebraska, North Dakota, South Dakota, and Wyoming. Both a peak season circulation and shoulder season circulation of the advertisement were created.

Representative Burg request the total cost to create the advertisements.

Ms. Bump informed the committee of a 2009 shoulder season promotional event entitled "Rooster Rush". Currently, 71% of hunters in Minnesota are Vikings fans and of those fans 30% attend games. To promote South Dakota tourism to those people, DTSD partnered with Minnesota Vikings linebacker Chad Greenway for radio and TV ads and a pheasant hunt giveaway. The promotion ran from August 17, 2009, to January 5, 2010.

In response to Representative Tidemann's question, Ms. Bump stated that the total cost for the Roost Rush promotional event was \$200,000.



As of December 2009, there are 82 Million Dollar Challenge Events partners across the state. For FY09, the four locations and events include:

- Brown County Fair – Aberdeen;
- Summit League Tournament – Sioux Falls;
- Ribs, Rods & Rock n' Roll – Vermillion; and
- Primal Quest.

Ms. Bump stated that the Custer State Park Cooperative had a tremendous payoff. For 2009, the ad helped to increased visitation by 7.9%, attract over 1.8 million visitors, and increase revenue by 29.5%.

Senator Hunhoff asked about the two state cooperative effort. Ms. Bump stated that the Department of Game, Fish, and Parks along with DTSD try to market one uniform brand to get the most effective use of the financing.

### **Research and Commercialization**

The Governor recommends a total general fund appropriation of \$4,042,579 and 2.0 FTEs for the Division of Research Commerce for FY11. The Governor's recommendation is an increase from FY10 in general funds of \$256.

**Mr. Mel Ustad**, Director of Research and Commercialization, informed the committee that originally there were four research centers that received funding. Of the original four research centers, three are still in operation. The state no longer funds the original research centers, however, seven other research centers receive funding.

In response to Representative Tidemann's question, Mr. Ustad stated that the Center for Light Activated Materials, Signal Transduction, and Infectious Disease research and Vaccinology are still in existence.

Mr. Ustad stated that the DTSD was able to leverage the \$600,000 EPSCoR state match to receive \$15,672,301 in federal awards to build research enterprise in the state.

Since the 2010 Research Centers were created, the state has invested \$21.5 million which was generated \$106.8 million in external funds. The 2010 Research Centers have a \$183.8 million economic impact to the state.

Mr. Ustad stated that the Dakota Seeds project is an effort to allow students to gain work experience and help companies grow. Currently, 79 companies and 151 internships and assistantships are involved with Dakota Seeds. A 1-1 match is required but the companies have paid \$2.50 for each \$1 Dakota Seeds received.

In response to Representative Wink's question, Mr. Ustad stated that Dakota Seeds will provide up to a \$2,000 match for undergraduate internships and up to \$8,000 for masters' program internships.

Representative Wink requested the total state share since the Dakota Seeds program started.

### **Tribal Government Relations**

The Governor recommends a total general fund appropriation of \$225,317 and 3.0 FTEs for the Division of Tribal Government Relations for FY11. The Governor's recommendation is an increase from FY10 in general funds of \$395.

**Mr. Roger Campbell**, Director of Tribal Government Relations, stated that the division acts as a liaison for the division to the tribes and Office of the Governor. The division tries to be included in tribal tourism by the Travel South Dakota's Tribal Lands brochure; tribal tourism roundtables; Northern Route to the Black Hills; Oyate Trail; native tours, art, and culture; promoting Pine Ridge, Four Bands Community Fund, and Cooperative marketing.

Mr. Campbell explained the various tribal projects occurring in the state. They include:

- South Dakota Indian Business Alliance;
- Indian Education Advisory Council;
- Interagency Council on Homelessness;
- Tax Collection Agreements;
- Governor's Indian Health Initiative;
- South Dakota Prisoner Re-Entry Initiative;
- Roadway Safety Committee; and
- South Dakota Board of Geographic Names.

Representative Putnam asked about international tribal tourism promotion. Mr. Campbell responded that the various tribes are trying to increase tourism, but that is done independently of the DTSD.

Representative Tideamann asked about the division's role with the recent blizzards in the state. In response, Mr. Campbell stated that the division helps connect the office of emergency management with the people in the area that perform the necessary work.

### **Arts Council**

The Governor recommends a total appropriation of \$1,530,042 and 3.0 FTEs for the Office of the Arts for FY11. This dollar amount consists of \$746,863 in federal funds, and \$783,179 in other funds. The Governor's recommendation is a decrease from FY10 in federal funds of \$306,000 and an increase in other funds of \$1,670.

**Mr. Michael Pangburn**, Director of the South Dakota Arts Council, stated that the Arts Council was created in 1966 by the legislature to serve South Dakota and the communities by providing grants, services, and information to art originations across, schools, and general public the state.

For FY09, most of the \$1.4 million budget for the division was used to support different programs and activities in the state. The division used \$1.1 million to support assistance to the arts, arts organizations, schools and other nonprofits in the state. This funding generated \$12.8 million in additional local arts funds.

The South Dakota Arts Council awards 35 season support grants and 25 project support grants in the state. Mr. Pangburn stated that the project support grants are available for any non-profit group holding an art-related activity.

In FY09, the Artists in Schools and Communities Program provided 167 residencies totaling 244 weeks in 69 communities across the state and involved 32 artists working with 37,000 students and adults. The Touring Arts Program had 40 artists and art groups with 249 performances and exhibitions booked and reported attendance of over 225,000.

Through the National Endowment for the Arts, the South Dakota Arts Council received \$290,000 in federal stimulus finding and created the South Dakota Arts Job Preservation Program. Mr. Pangburn stated that the stimulus funds were only to be used for job preservation and not job creation. Therefore, the stimulus funds were distributed to 10 South Dakota organizations to help preserve jobs in the arts.

In response to Representative Wink's inquiry about the 10 organizations that received stimulus funds, Mr. Pangburn distributed a handout entitled "American Recovery and Reinvestment Act: South Dakota Arts Council Grants to Organizations". (**Document #4**)

### **State Historical Society**

**Mr. Jay Vogt**, Director of the State Historical Society, stated that the division was created by the legislature in 1901 to collect, preserve, interpret, and promote the history of the people in the state.

Mr. Vogt informed the committee of the State Historical Society's accomplishments in the past year. Some of the accomplishments include:

- Acquired 368 cubic feet of records from the archeological survey of the Missouri River;
- Gifted 575 museum artifacts relating to the archeological survey of the Missouri River;
- Microfiched and assisted with nearly 5 million articles related to the tax credit program;
- Rehabilitation of various historic buildings; and
- Nearly 18,000 people visited the Cultural Heritage Center.

Mr. Vogt noted that the South Dakota State Historical Society is comprised of 45 FTEs, 65 volunteers working over 8,500 hours annually, and 21 inmates.

The archeology center was saved last year by a half cent increase. Adjustments have been made and new rules implemented for archeological services. There was a loss of 3.0 FTEs last year due to one retirement and two people taking higher federal positions.

Senator Novstrup requested the total revenue generated by the admission to the Cultural Heritage Center.

**Ellsworth Authority**

**Mr. Bruce Rambleton**, Banker from Rapid City, stated that legislation was passed during the 2009 Legislative Session to create the Ellsworth Authority. The Authority has no funds, expended and received no funds, and requested no funds.

Currently, there are 180 acres by the Ellsworth Air Force Base (EAFB) that will need to be conveyed. The Ellsworth Authority is working with city of Box Elder and Pennington County.

Mr. Rambleton stated that the Authority hopes to receive a \$100,000 grant from the United States Department of Defense. To write the grant application, funds are being used to pay secretarial support from the Future Foundation.

Senator Hunhoff asked if the Authority will be liability insurance. Mr. Rambleton responded that the Authority needs to have coverage if a person gets hurt on the land. Conversations with Mr. Dennis Rounds have been made about PEPL insurance.

Representative Tidemann stated that any volunteer is covered by the PEPL program, unless they hire their own attorney.

**MOTION:**      ADJOURN

Moved by:      Carson  
Second by:     Tidemann  
Action:          Prevailed by voice vote.

Barb Bjorneberg and Lisa Shafer  
Committee Secretary

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Jean M. Hunhoff, Chair